



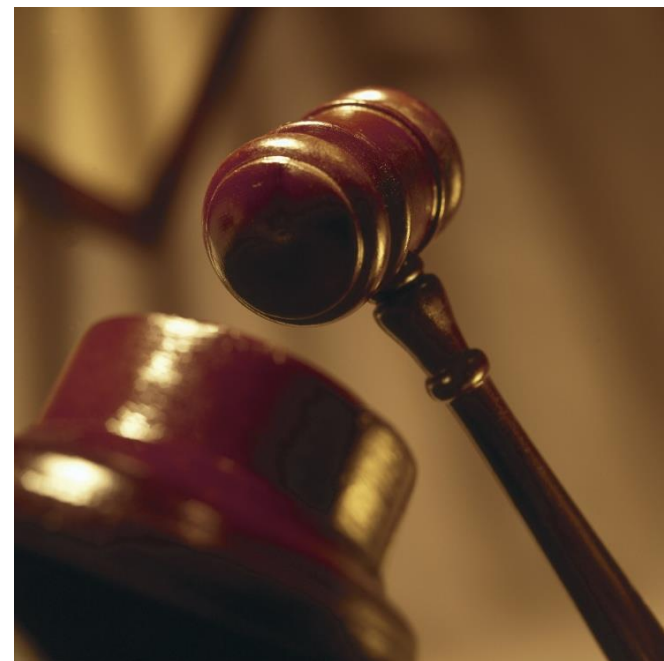
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Getting There From Here:

State Funding Options for Transportation Projects



Presentation to the South Dakota Highway Needs and Financing Interim Committee

August 26, 2014

Jaime Rall, Program Manager, NCSL Transportation Program



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Transportation Funding Crisis



- **Chronic funding gaps**
- **Years of underinvestment**
- **Aging infrastructure**
- **Growing transportation demand**
- **Declining gas tax revenues**
- **Political reluctance to raise gas tax**
- **National recession**
- **State budget shortfalls**
- **Uncertainty of federal program**

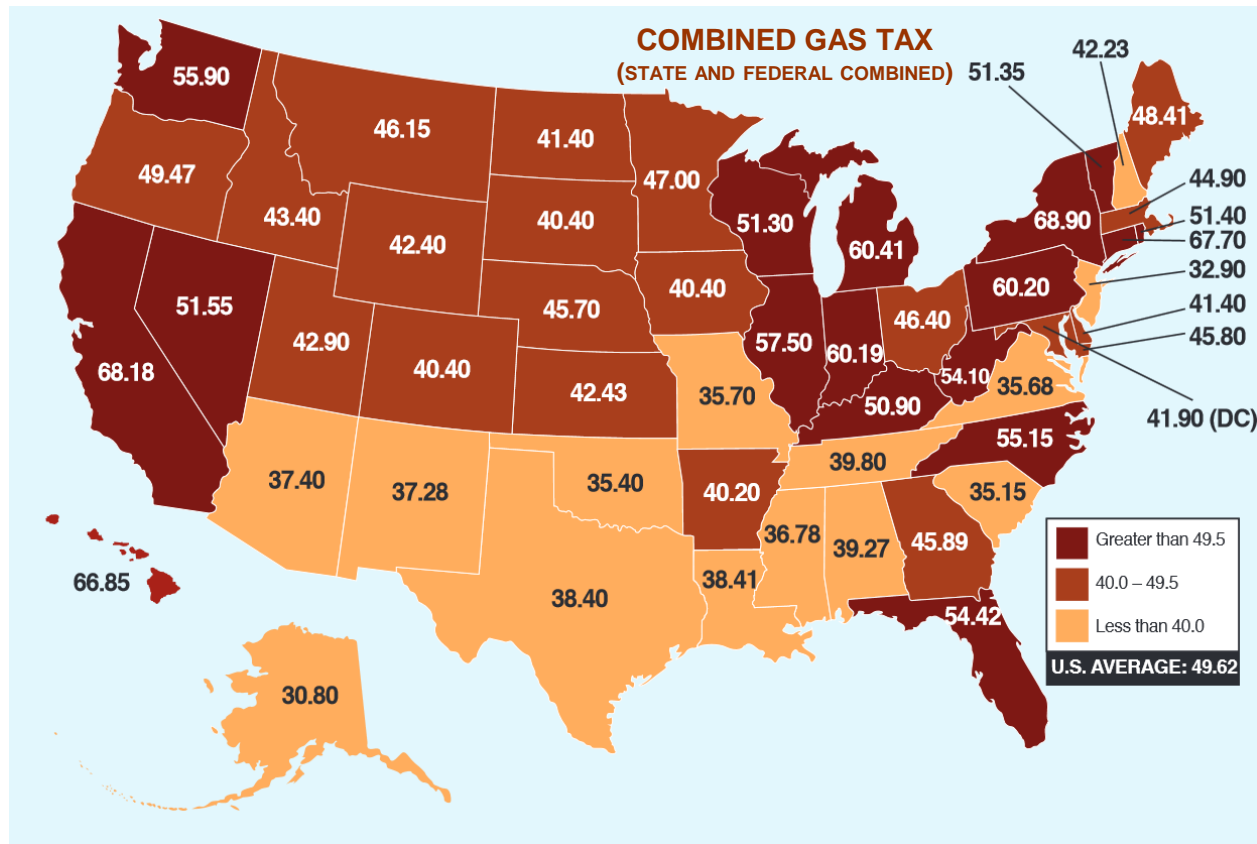


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Gasoline Tax Rates



As of July 1, 2014, state gas tax rates ranged from \$0.08 in Alaska* to about \$0.51 in New York.

Nationwide, the average state gas tax is 31.22 cents per gallon.

* Plus local sales taxes for cities and boroughs

Source: American Petroleum Institute, 2014.



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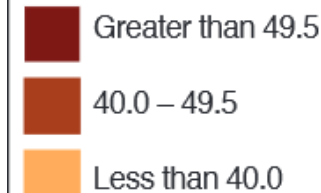
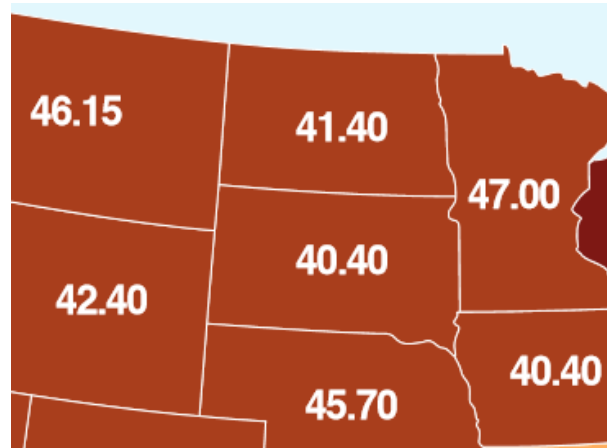
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Gas and Diesel Tax Rates

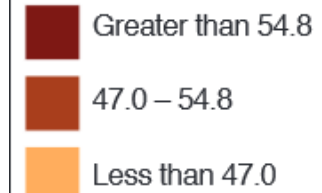
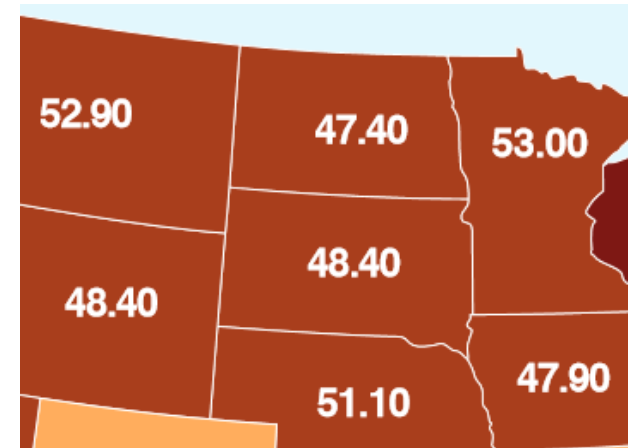
South Dakota now has
the **17th lowest
combined gas tax**
(federal and state) and
the **20th lowest
combined diesel tax** in
the nation, well below
national averages.

COMBINED GAS TAX



U.S. AVERAGE: 49.62

COMBINED DIESEL TAX



U.S. AVERAGE: 55.42

Source: American
Petroleum Institute, 2014.

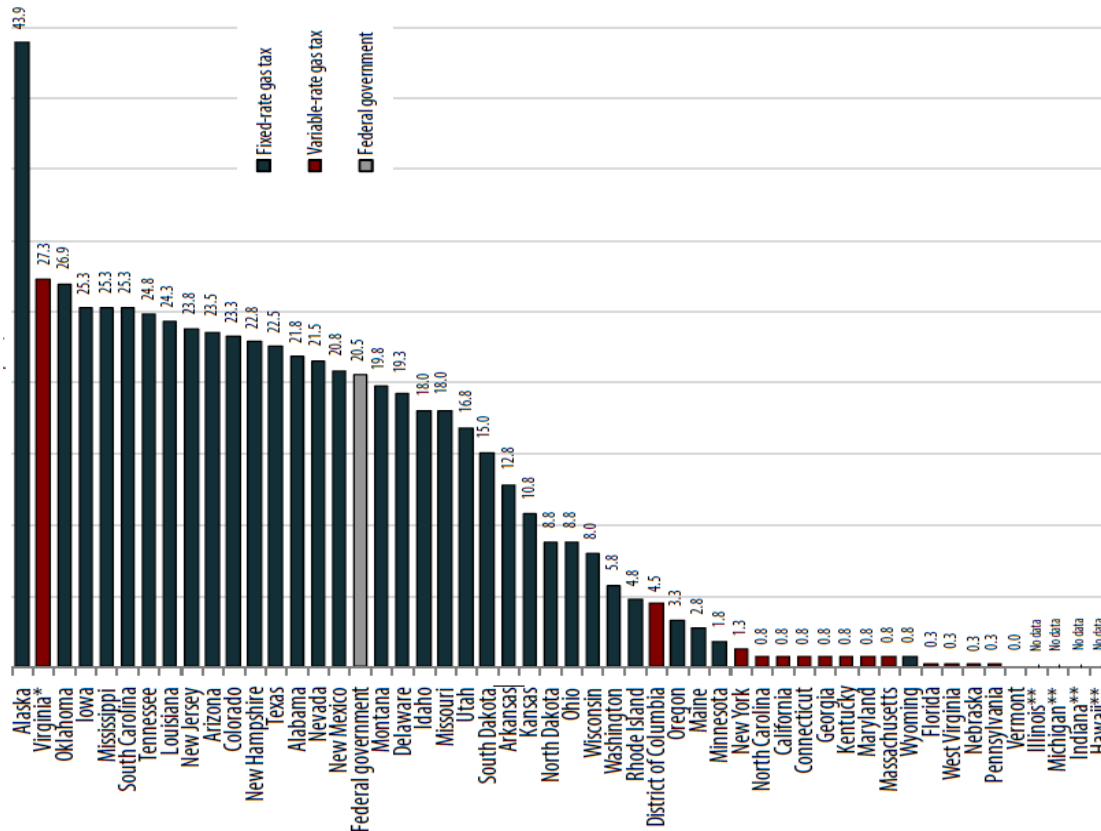


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The Value of State Gas Taxes Has Fallen...



- As of April 2014, 16 states had not raised gas taxes in **more than 20 years**
- No state legislatively increased its gas tax in **2010, 2011 or 2012**
- As of 2011, after accounting for rising construction costs, the average state's gas tax had fallen by **20 percent** since last increase
- State gas taxes had fallen by a combined **\$10 billion each year**
- Often small increases were **lagging behind funding needs**

Sources: CSG, 2011; Institute on Taxation and Economic Policy, 2011 and 2014; NCSL, 2012, 2013 and 2014.

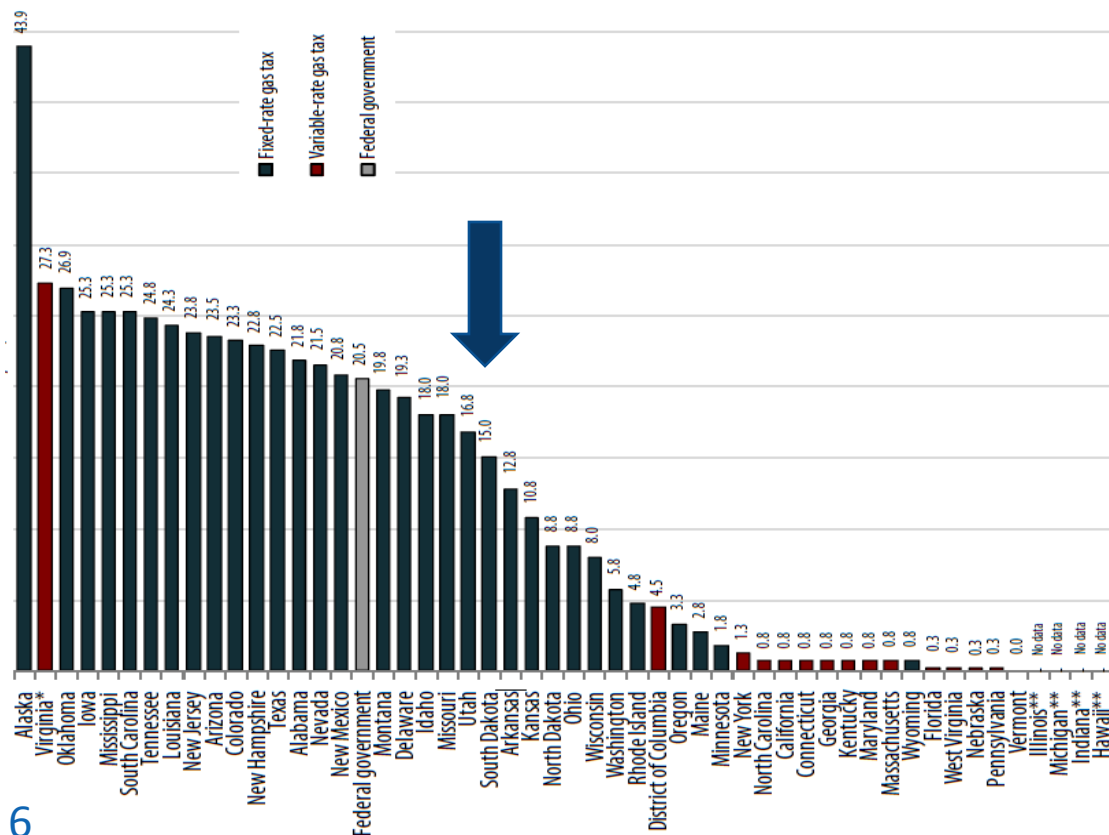


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...and South Dakota is No Exception



Excise Tax	22.0 cpg
Years Since Last Increase (as of April 2014)	15 years
% Change in Cost-Adjusted Rate Since Last Increase (as of Dec. 2011)	-30%
Rate Change Needed to Return to Previous Level (as of Dec. 2011)	9.5 cpg
Annual Revenue Yield of Rate Change (as of Dec. 2011)	\$40.8 million

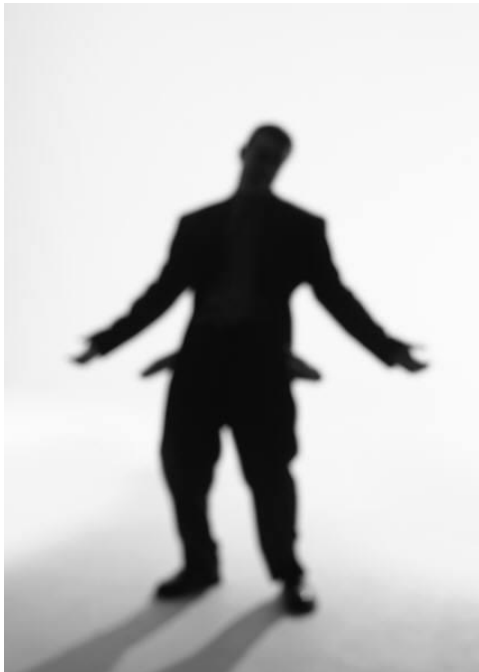


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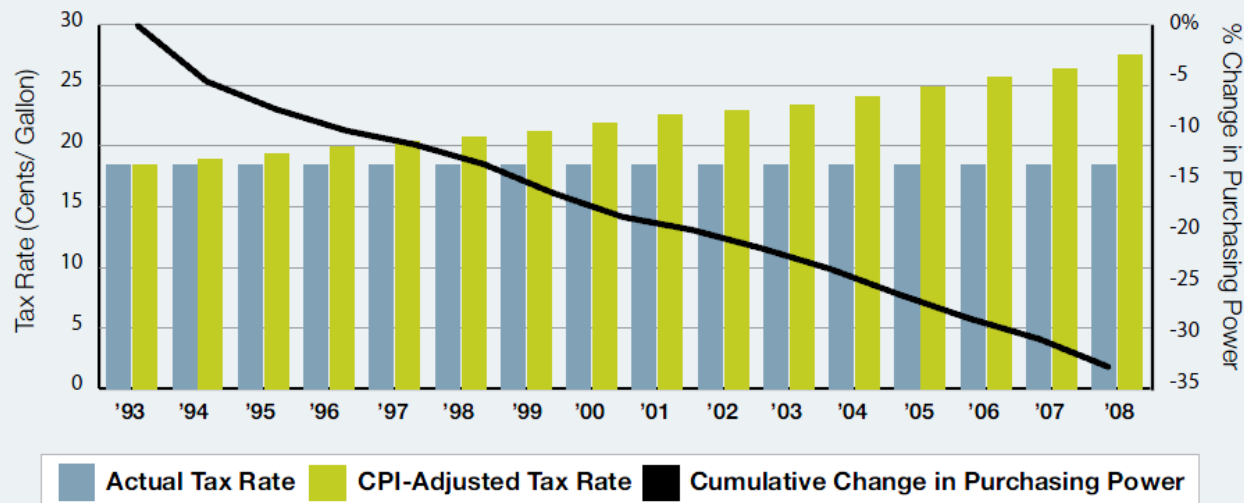
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The Federal Gas Tax is Also Falling For the Same Reasons as (Most) State Gas Taxes

EXHIBIT 2-9: FEDERAL GASOLINE TAX RATE AND LOSS IN PURCHASING POWER



Source: FHWA 2006 Highway Statistics, Table FE-21B, indexed using CPI-U as reported by the Bureau of Labor Statistics.



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Transportation Faces Its Own Fiscal Cliff



Image from ridelust.com

- The current federal surface transportation law (MAP-21) is on a **short-term** extension through May
- The federal Highway Trust Fund is still **unstable**, even if the immediate insolvency crisis was averted
- Legislators express **skepticism** about future help from the federal government

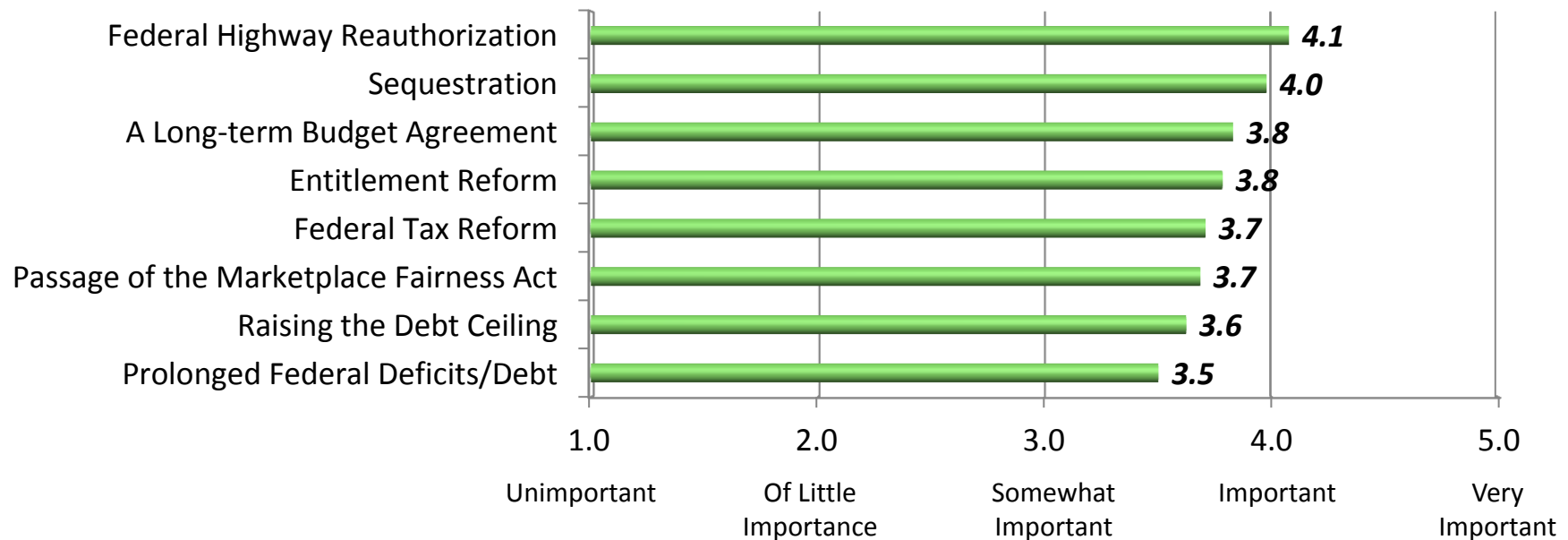


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Federal Reauthorization is Critical to Stability of State Budgets





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The Question States are Asking

- NCSL recognizes that the federal government plays a vital role and that the federal program should be continued and preserved ...
- ... at the same time, the question continues to be:
How can states provide needed transportation infrastructure in a time of uncertainty ... with or without long-term, sustainable federal programs?



Transportation Infrastructure Investment is a Top State Issue

- In 2013 and 2014, at least 748 relevant bills considered in every state and D.C.
- Mentioned in at least 22 governors' "State of the State" addresses in 2014
- Identified by state legislative fiscal officers as one of their top issues



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Three Trends as States Seek Sustainable Transportation Funding



- Putting every option on the table
- Tracking with the economy
- Capturing all users

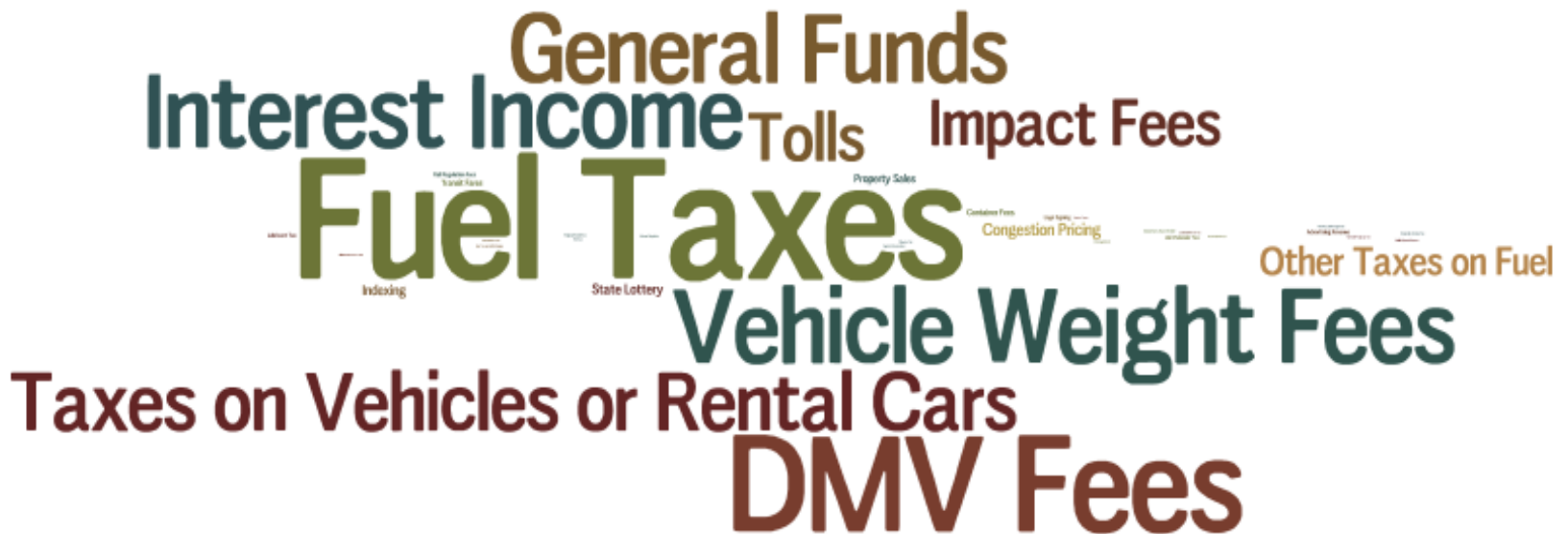


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How Have States Funded Surface Transportation?



Note: States provide about half of all funding for roads, bridges, rail and transit—compared to the federal contribution of about 20 percent.



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What Does South Dakota Do?



- Fuel taxes
- Sales taxes on gas or diesel
- Vehicle/rental car sales taxes
- Registration/license/title fees
- Truck weight fees
- Interest income
- Sign fees
- Billboard permits



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Trend 1:

Putting Everything on the Table



In recent years, legislatures have looked at many other options for transportation funding, from the traditional to the unprecedented.

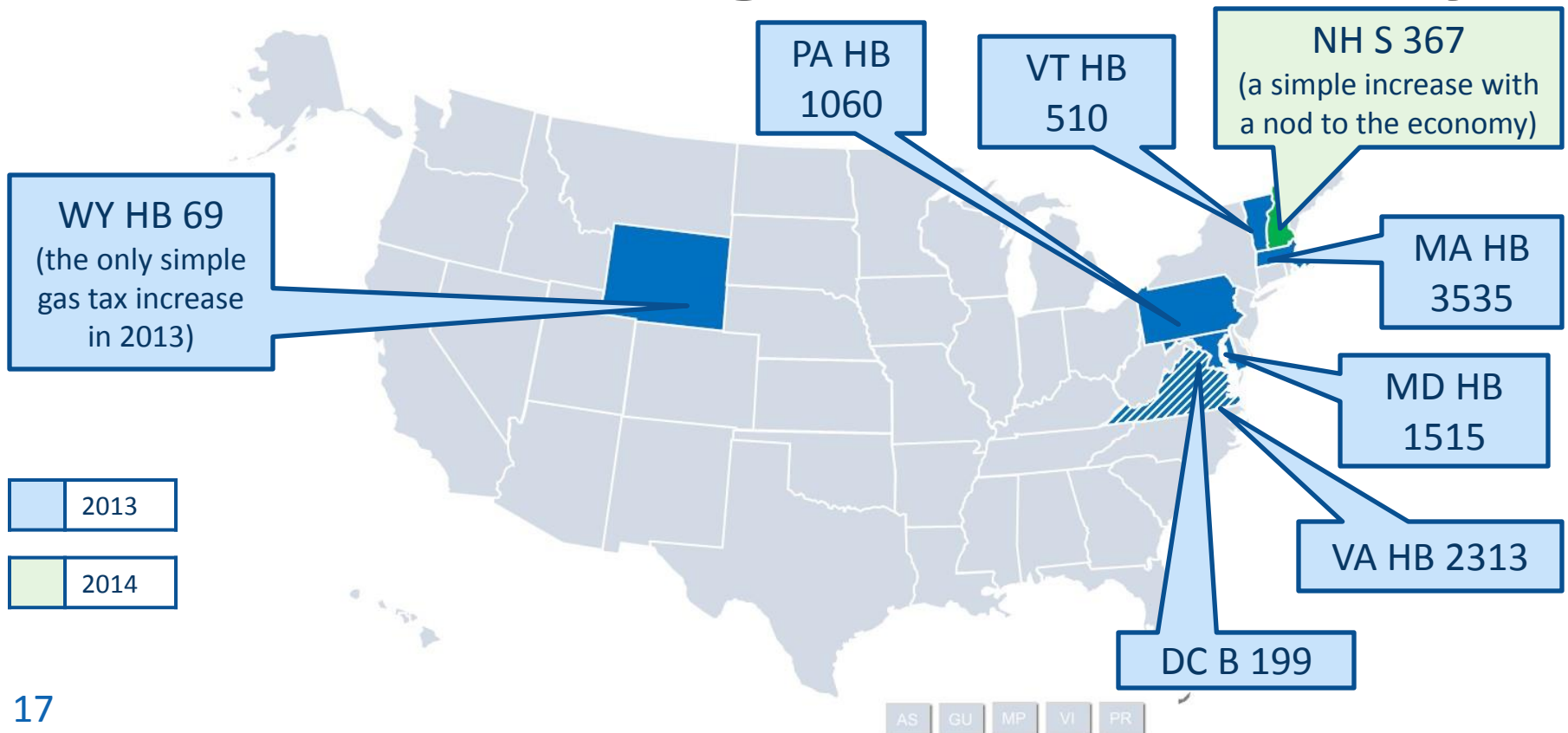


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Trend 2: Tracking with the Economy



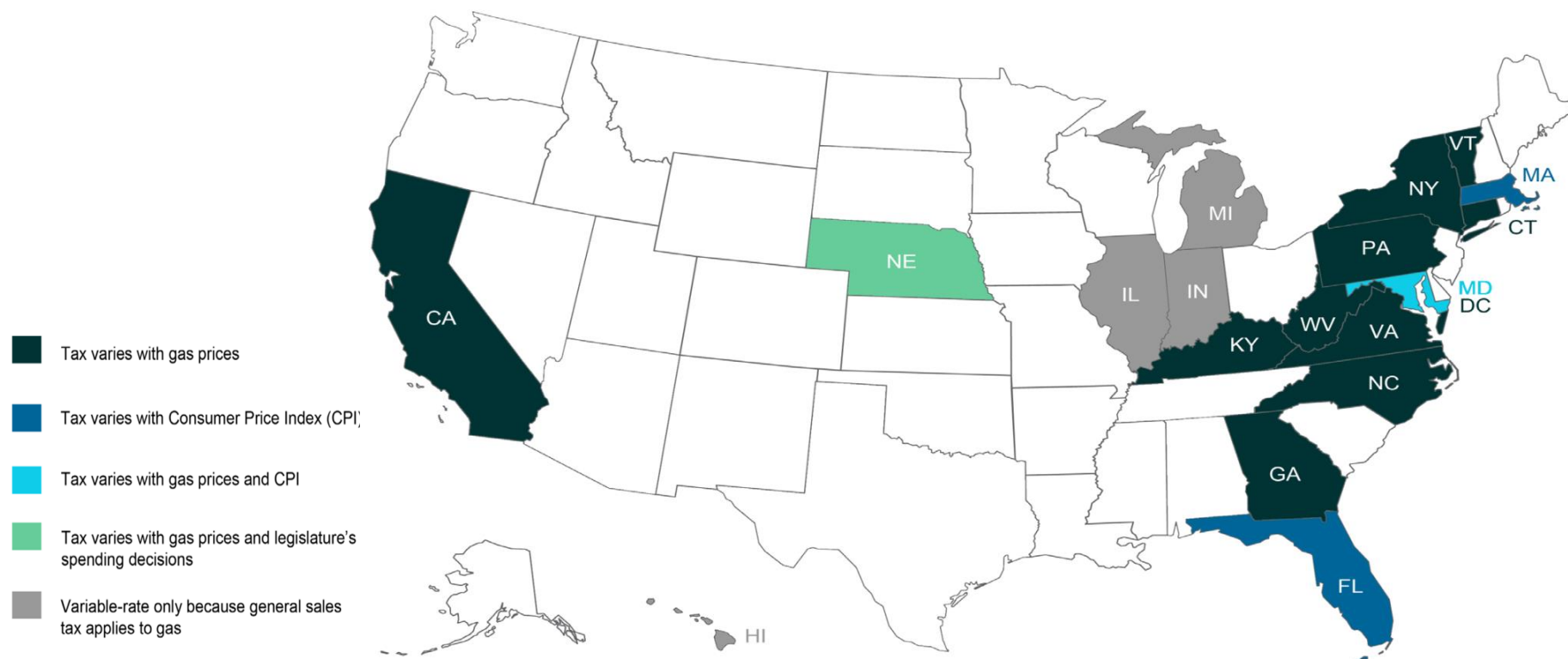


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15 States and D.C. Now Have Variable-Rate Gas Taxes





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Will States Lead the Way on Gas Taxes?

Senate EPW Chair
Barbara Boxer (D-CA) has
suggested the federal
government “follow the
lead of some of our
states” with a
percentage-based gas tax





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Is Raising Gas Taxes Enough?

- “Even without alternative fuel vehicles, **the fuel tax won't keep pace** and the system just won't work.”

Sen. Bruce Starr, Ore.

- “With higher efficiency standards and alternative fuel vehicles, **government cannot continue to rely on the gas tax** as a revenue source.”

Speaker Bill Howell, Va.

- “The gas tax will always play a role in funding our transportation system, but **eventually we will have to look at more stable sources as well.**”

Rep. Judy Clibborn, Wash.





Trend 3: Capturing All Users

- Fees for alternative fuel vehicles or electric vehicles
- Taxes on alternative fuels
- Mileage-based user fees (also known as vehicle miles traveled or VMT fees)



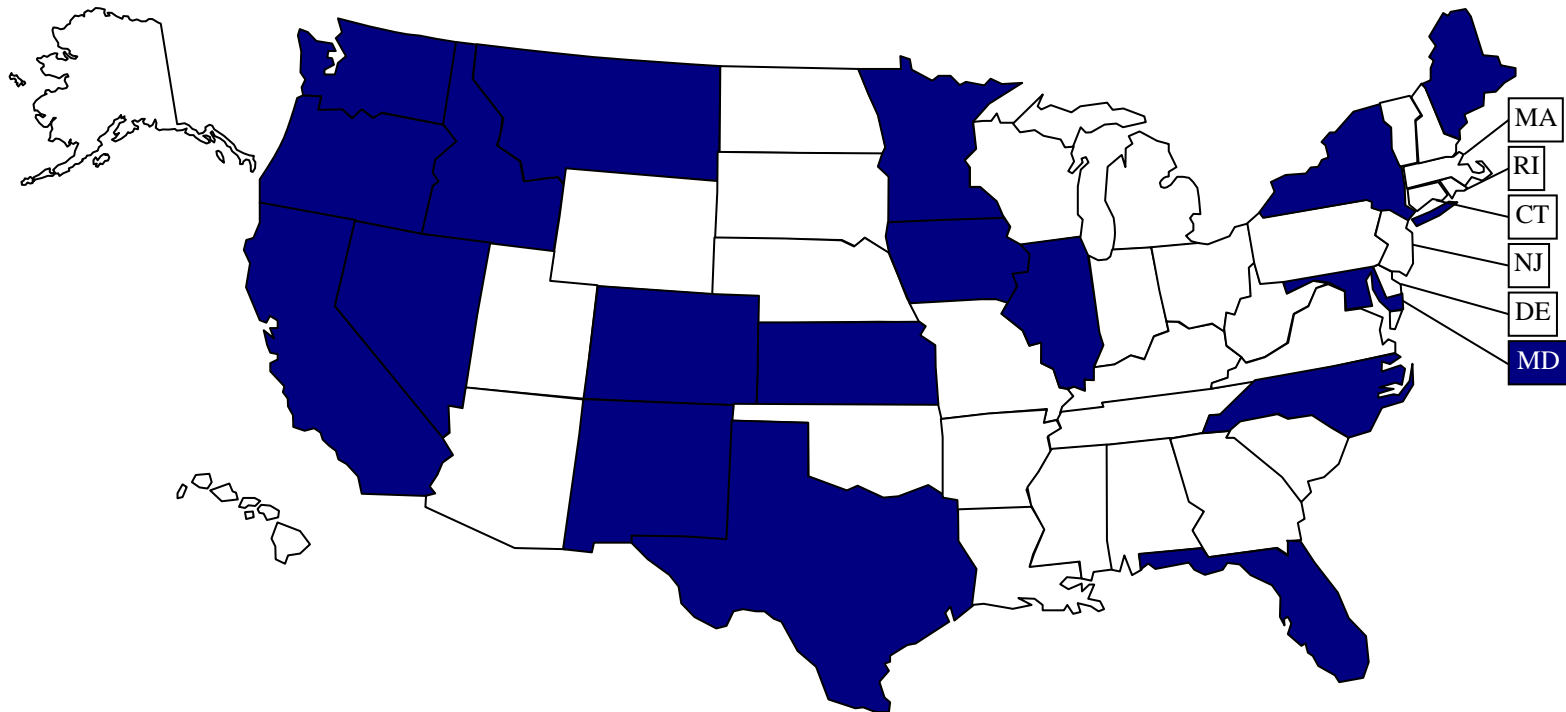


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Per-Mile Fees: Pilot Projects



As of 2012, at least 18 states had undertaken VMT pilot projects.

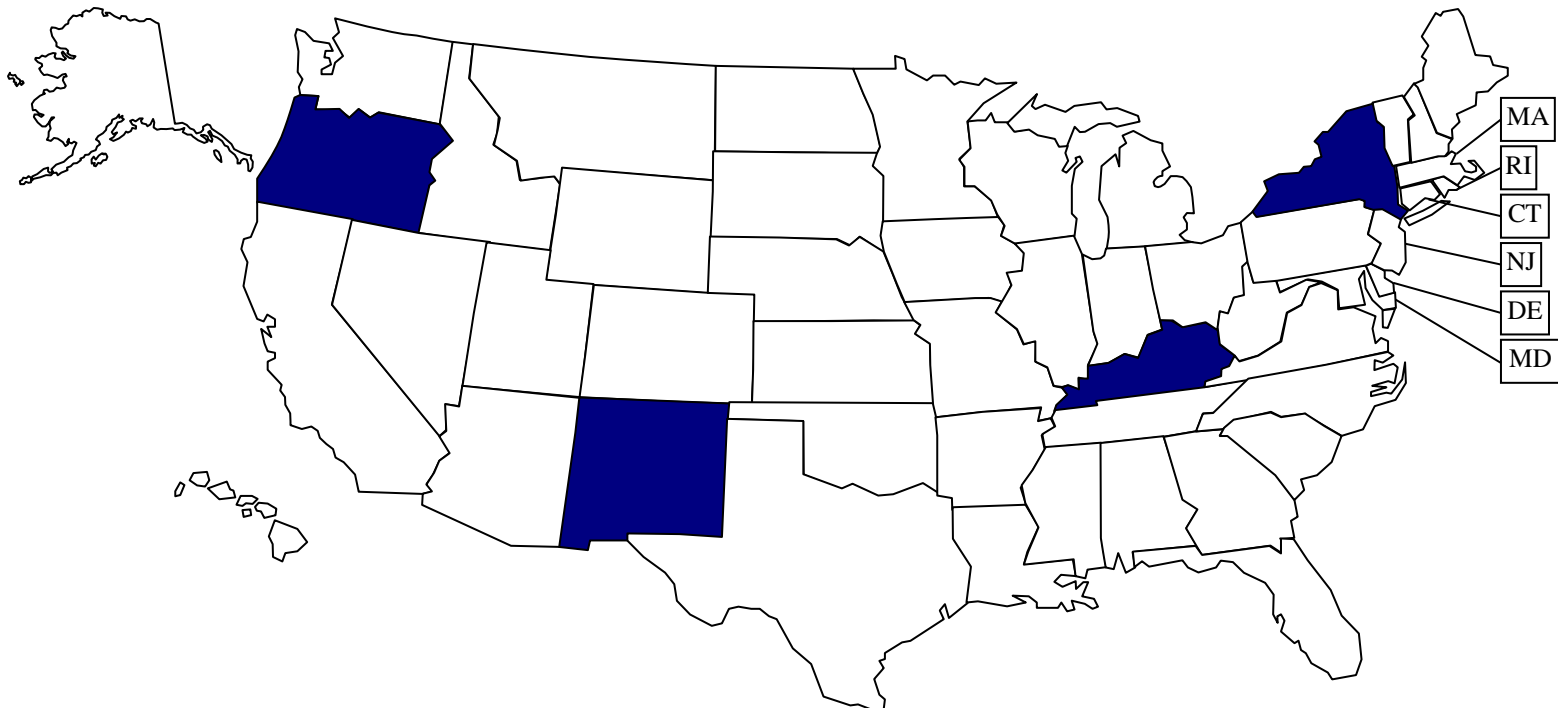


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Weight-Distance Taxes



Four states tax heavy vehicles based on
miles traveled and vehicle weight.

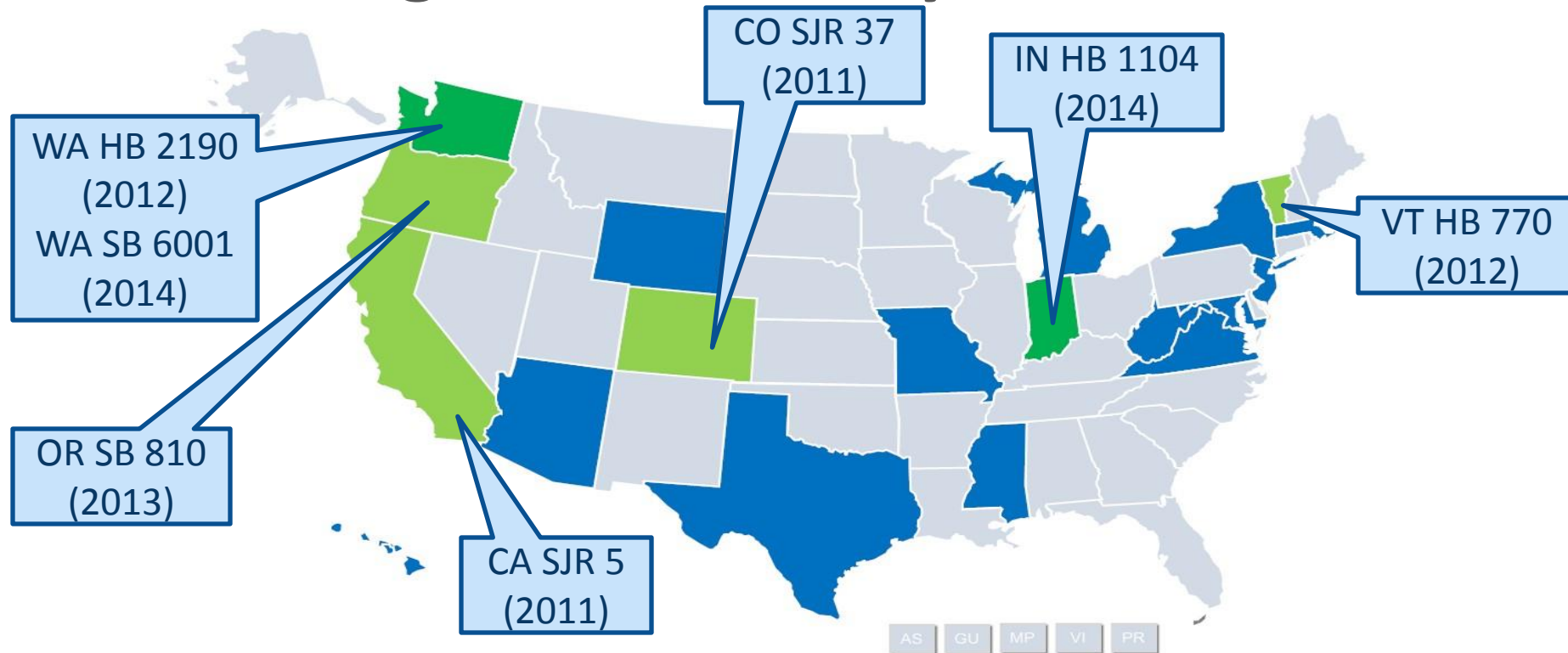


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Relevant Legislative Activity



At least 55 VMT-related bills have been introduced in 19 states since 2008.



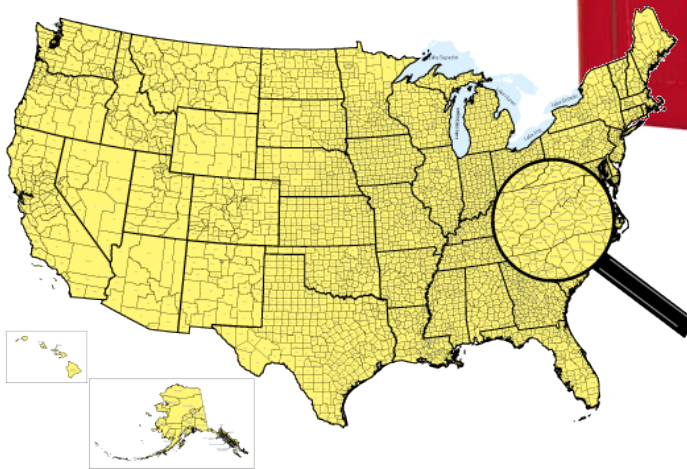
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What Else Are States Considering?

- Financing
- Efficiency, accountability and revenue-protection
- Local flexibility





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The “Laboratories of Democracy”

- State gas taxes preceded federal gas tax by 13 years
- States can also lead the way to explore sustainable revenue options and alternatives for the future



Strong States, Strong Nation



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Contact Details and Resources



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For details about specific state bills, see NCSL's online, searchable Transportation Funding and Finance Legislation Database:

<http://www.ncsl.org/default.aspx?TabId=25720>

NCSL is always seeking **public and private funding partners** for collaborative research and outreach initiatives that serve the needs of state legislatures.

Besides **no-cost technical assistance to state legislative entities** upon invitation, we also provide responses to **individual requests for information**.

Please contact us if you're interested.